



Death and Life of Co-operatives Victoria

Co-operatives Victoria is Dead!

Long Live Co-operatives Victoria!

David Griffiths
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The Business Council of Co-operatives and Mutuals (BCCM) will establish a chapter in Victoria - called Co-operatives Victoria.

The new Co-operatives Victoria will be launched on 29 April 2017, Church of All Nations, 180 Palmerston St, Carlton VIC 3053

Co-operatives Victoria is the name adopted by the Co-operative Federation of Victoria Ltd to rebrand itself from 2009.

The Co-operative Federation of Victoria Ltd has been in abeyance since 2013 and will be formally dissolved in May 2017 by Consumer Affairs Victoria in the Department of Justice and Regulation.

As Secretary of the old Co-operatives Victoria the decision of Consumer Affairs Victoria is welcome – as is a revitalisation of the co-operative movement in Victoria. There are, however, co-operative development options – including the relationship between ends and means.

Engage in Discussions

The Business Council of Co-operatives and Mutuals was formed in 2013 and prior to its formation the Co-operative Federation of Victoria Ltd had sought to engage in discussions about its establishment but without success as the right to have a voice required contributing a \$25,000 Foundation Fee.

This was impossible as, for example, the total income for CFV for the 12 months ended 30 June 2013 was \$26, 129 but, then, the founders of BCCM knew that CFV was unable to match the foundation contributions of individual large co-operatives and mutuals.

Murray Goulburn

For CFV in 2013 the final straw was when the largest paying member the Murray Goulburn Co-operative Co Limited decided to resign and join BCCM. Murray Goulburn had been a member of CFV since its incorporation. In subsequent years, in 2016 Murray Goulburn become involved in controversy with its members and is currently subject to a parliamentary inquiry – the Senate Economic Reference Committee Inquiry into the Dairy Industry. In a submission to the Inquiry Murray Goulburn admitted that its April 2016 decision to reduce the farmgate milk price had a significant impact on suppliers and what transpired was unacceptable to them. The language is revealing – the members are called suppliers and it is an impact on them instead of the members of the co-operative.

On 20 March 2017 Murray Goulburn announced that it had for the first time in its history appointed a non-supplier director as Chairman. The explanation for this was because of “the complex environment to which MG currently operates” and that “MG is a large and complex international business.” MG is. In fact, not only complex and large – it is also a co-operative.

For more read A New Era for Co-op in **The Devondaler** Vol 32 No 4 Issue 374 April 2017, p 1 and Supplier Meetings – Western Region, Gippsland and NSW Post-Session Q&A summary. The latter are notes prepared by MG but undated.

The Co-operative Federation of Victoria Ltd was concerned that there was a need for the founders of BCCM to consider the impact of its establishment on existing State Co-operative Federations and sought to engage in dialogue about possibilities and consequences.

The details of this exchange are reported in **Co-operation – Ideal and Practical** (2014) published by the Co-operative Federation of Victoria Ltd and written by David Griffiths:

<https://archive.org/details/CooperationIdealandPractical2014>

The earlier history of the Co-operative Federation of Victoria Ltd began in 1970 and this has been chronicled by David Griffiths and will be published in 2017 – **Co-operation Between Co-operatives**.

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BCCM membership is open to peak bodies and individual co-operatives as full or associate members and as of 15 April 2017 two of five State Federations had joined BCCM – as associate and not full members:

Co-operative State Federations Members of Business Council of Co- operatives and Mutuels	Co-operative State Federations that are not members of the Business Council of Co-operatives and Mutuels
Co-operatives WA Co-operatives NSW	Co-operative Federation of S>A. Co-operative Federation of Queensland Co-operative Federation of Victoria

BCCM is a company – not a co-operative. While the members of BCCM are individual co-operatives and mutuels and peak bodies, the representatives of the members are CEOs. The board of the BCCM is elected from the full members of BCCM – excluding associate members. For co-operatives, at least, this a representation departure with membership of Co-operatives Australia restricted to State Federations and representatives of the Federations were a mix of staff and chairpersons. Co-operatives Australia ceased to function in 2013 when BCCM was established.

The full members of BCCM are invited to nominate CEOs for election to the board. This raises an interesting issue about who represents and who should represent co-operatives – management or boards and the challenge of the principal-agent problem. A co-operative is democratically controlled by its members who elect the boards of co-operatives and mutuels. The challenge is with managers appointed by boards and ensuring the managers represent the interests of the board and the members of the co-operative and mutuels – instead of the managers serving the manager's interests which may or may not be in the interests of the board and the co-operative. The CEOs would probably argue that there is no distinction and, if this is claimed, then, they are denying an inherent structural issue within co-operatives and mutuels.

Causes of Co-operative Failure

In Causes of Co-operative Failure, William Kidson wrote that a first-class manager should give leadership to the board of a co-operative but this depends on the manager ensuring that the way he is managing the co-operative is in the interests of the board and the co-operative. (Co-operative Dreamtime, Co-operative Advisory Council, Queensland, 1979, p 100) This is dependent, of course, on the boards

understanding their own interests and the interests of managers. The Murray Goulburn Co-operative Co Limited board thought it was acting in the interests of members before it fell into controversy and a parliamentary inquiry.

Given that the board of BCCM is comprised of CEOs it is appropriate to ask to what extent they genuinely represent the interests of their boards and the members of their co-operatives and it is a simplification to conclude that because the CEOs are appointed by their boards that this is self-evident - because there is the ongoing principal-agent challenge.

This issue has been addressed in several chapters of Co-operative Organizations and Canadian Society: Popular Institutions and the Dilemmas of Change (1990) edited by Murray E Fulton.

The new Co-operatives Victoria could be led by the existing full members of BCCM in Victoria such as Common Equity Housing Limited that is already represented on the board of BCCM. CEHL is not a co-operative. It is a company. Its members are over 200 individual housing co-operatives but they do not have a majority on the board of CEHL and, indeed, the properties occupied by the members of the individual housing co-operatives are not owned by the individual co-operatives but by the company. Neither the co-operatives or their members, therefore, own and control CEHL. Ironically, however, to the present the financial viability of CEHL: is dependent on the sweat equity of the members of the individual housing co-operatives.

In contrast to CEHL, the members of the SouthEast Housing Co-operative Ltd do have direct ownership and control. A majority of the board's directors are elected from and by members. The co-operatives manages 160 properties – 150 Government owned but 10 owned by the co-operative and, therefore, the members of the co-operative.

Lessons of Co-operative History

The launch of the new Co-operatives Victoria will be preceded by a presentation of Race Mathews about the lessons of co-operative history. I would suggest that these include the following:

- CEOs by themselves do not represent the co-operative movement and there is an ongoing challenge of the principal – agent problem and co-operatives and mutual boards that ignore this are inevitably controlled by their CEOs.

- Co-operation between co-operatives includes co-operation between peak bodies and if this is ignored and/or selective, then, there could be long-term consequences for the nature and development of a co-operative movement.

The structure of peak bodies should reflect and reinforce co-operative values and principles. Peak bodies need to espouse co-operative democracy in practice and not have different levels of membership and different rights and obligations depending on the affluence of members.

Enviably History

Since its establishment in 2013 BCCM has created an enviable history of achievements in co-operative advocacy – including the Senate Economic Reference Committee report on Co-operatives, mutuals and member-owned firms (2016) and the announcement in 2017 by the Federal Treasurer Scott Morrison to appoint a consultant to consider reforms to assist co-operatives and mutuals. Achievements, however, are not a substitute for raising issues and questions – because the debate about co-operative values and principles transcend actual and claimed co-operation in practice.